

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

REVIEW REPORT
OF
WAR MEMORIALS COMMISSION
STATE OF INDIANA
March 1, 2000 to March 31, 2003

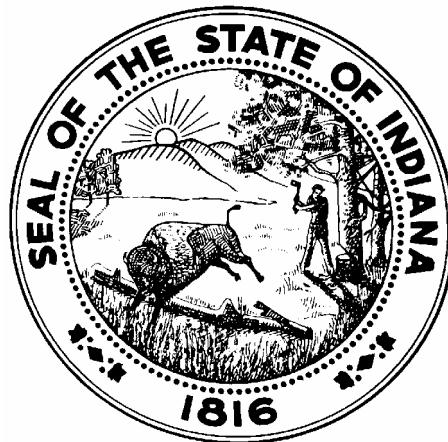


TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Transmittal Letter	3
Review Comments:	
War Memorials Foundation:	
Introduction.....	4
Authority to Establish Corporation.....	4
Cash Activity.....	4-5
Improper Management of Fund.....	5
Lost Interest to the State General Fund	5
Diversion of Funds	6
Inappropriate Expenditures of Public Funds	6-7
Internal Controls Over Accounting Records.....	7
Museum Employees.....	7
Souvenir Shop Fund:	
Introduction.....	8
Cash Activity.....	8
Improper Management of Fund.....	8
Cash Book.....	8-9
Souvenir Shop Employees.....	9
Daily Deposits.....	9
Compensatory Time.....	9-10
SDO Fund Disbursements.....	10
Exit Conference.....	11
Official Response	12

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Mr. William Sweeney	01-13-97 to 06-30-04
President of the Commission	Mr. George Buskirk, Jr.	01-10-00 to 06-30-04



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WAR MEMORIALS COMMISSION

We have reviewed the receipts, disbursements, and assets of the War Memorials Commission for the period of March 1, 2000, to March 31, 2003. The War Memorials Commission's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the War Memorials Commission are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

May 1, 2003

WAR MEMORIALS COMMISSION
REVIEW COMMENTS
March 31, 2003

WAR MEMORIALS FOUNDATION

Introduction

In July 2000, officials of the Indiana War Memorials Commission (Commission) established a separate not-for-profit corporation organized under the laws of the State of Indiana as the Indiana War Memorials Foundation, Inc., (Foundation). According to the Articles of Incorporation, the Foundation is to operate solely for the benefit of, to perform the functions of, and to carry out the purposes of the Indiana War Memorials. The Foundation is a tax-exempt organization under Internal Revenue Code Section 501(c)(3).

Authority to Establish Corporation

We found no statutory authority for the Commission to establish a not-for-profit corporation or deposit public funds in a private bank account without authorization from the Treasurer of State. We also found no statutory authority to expend public funds without the statutory oversight of the Auditor of State, State Budget Agency, Department of Administration, or State Personnel. IC 10-7-2-9 (currently 10-18-1-18) creating the powers of the Commission provides no statutory authority for such actions.

Per IC 5-13-6-1: "... all public funds collected by state officers, other than the treasurer of state, shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state no later than the business day following the receipt of funds."

Per IC 4-13-2-7, the Auditor of State shall: "... Examine every receipt, account, bill, claim, refund, and demand against the state arising from activities carried on by agencies of the state, approve each legal, correct, and proper claim, designate the account to be charged therefor, and issue the auditor's warrant in payment thereof." The Auditor of State shall also examine: "... each and every payroll or salary voucher submitted for payment by each state officer or state agency and shall issue the auditor's warrant in payment, . . ."

Per IC 4-13-1.3-3, the Department of Administration shall act as the purchasing agent for state agencies under IC 5-22.

Per IC 4-12-1-1, the execution and administration of all appropriations are vested with the Budget Agency.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Cash Activity

To begin Foundation operations, in January 2001, the Commission transferred the remaining cash balance of its Square Five fund in the amount of \$17,964.51 and Vietnam Korean Memorial fund of \$82,606.90 into the Foundation's operating account and endowment, respectively.

During the audit period, the Foundation's revenue was from public funds of the Commission in the form of a \$453,026.25 bequest, elevator ticket sales from the Civil War Museum on Monument Circle, cash collections from the donation boxes located at the Civil War and War Memorial museums, and other various donations and fund raisers. The expenses of the Foundation consisted of wages for some museum and foundation employees, purchases relating to museum and memorial items and activities, and other expenses considered personal in nature such as staff meals and flowers.

WAR MEMORIALS COMMISSION
REVIEW COMMENTS
March 31, 2003
(Continued)

As of March 31, 2003, the Foundation operating (checking) account balance is \$17,620.65. The Foundation endowment is invested in various government securities, mutual funds-stocks and taxable bonds with a market value of \$616,670.01.

Improper Management of Funds

As stated in our prior Audit Report B14087, the Square Five and Vietnam Korean Memorial funds are maintained outside the State's accounting system at a financial institution. There is no statutory authority for these funds to be maintained outside the State's accounting system.

The Square Five and Vietnam Korea Memorial funds were transferred to the Foundation.

All funds remaining in the Foundation's operating and endowment accounts should be deposited with the Treasurer of State and recorded in the appropriate Auditor of State fund center(s) of the Commission. Daily financial activity of the Foundation should cease to allow a final computation of balances in both the checking and investment accounts.

State agencies do not have the authority to maintain funds outside of the Auditor of State's accounting system without specific statutory authority. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

Lost Interest to the State General Fund

As of March 31, 2003, the Commission had principal deposits in the Foundation investment account totaling \$607,910.57 with accrued interest earnings of \$8,759.44.

However, by not depositing all Foundation funds into an appropriate Commission fund center within the Auditor of State's accounting system, for the period of January 1, 2001, to March 31, 2003, the state general fund incurred an estimated loss in interest revenue of \$18,534.05.

The total of lost interest revenue to the state general fund may be offset by the amount of accrued interest earnings; thus, the net of lost interest revenue totaled \$9,774.61 on March 31, 2003.

IC 5-13-14-3 states: "A public officer who knowingly fails to deposit public funds, or knowingly deposits or draws any check or negotiable order of withdrawal against the funds except in the manner described in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

IC 5-13-6-1 states in part: "... all public funds collected by state officers, other than the treasurer of state, shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state no later than the business day following the receipt of funds."

WAR MEMORIALS COMMISSION
REVIEW COMMENTS
March 31, 2003
(Continued)

Diversion of Funds

The Commission was the recipient of a bequest for \$453,026.25 payable to the Indiana War Memorials Commission. According to the donor's wishes, the donation was to be used at the American Legion Mall for the maintenance, improvement, new construction and other purposes directly related to the Mall and the various war memorials under the direction and with the best discretion of the War Memorials Commission.

The Commission received the bequest check dated January 4, 2002, and did not deposit it until after the Commission and Foundation meetings on January 11. Under the direction of William Sweeney, Executive Director of the Commission and Foundation, and George Buskirk, Jr., President of the Commission and Foundation, the Commission deposited the money into the Foundation's endowment even though the check was made payable to the Indiana War Memorials Commission.

The Commission also received a final payout from a Lilly Endowment funded through the Governors Hoosier Heritage Foundation, Inc., originally earmarked for the Civil War Museum renovation project which was completed in 1999. The check dated February 28, 2001, for \$103,671.10 was made payable to the War Memorials Commission and deposited into the Foundation's operating account on March 1.

IC 10-7-2-9 (currently 10-18-1-18) states: "The commission may . . . Receive donations, gifts, devises, and bequests and use them in connection with the purposes of this chapter."

IC 5-13-6-1 states in part: ". . . all public funds collected by state officers, other than the treasurer of state, shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state no later than the business day following the receipt of funds."

IC 5-13-14-3 states: "A public officer who knowingly fails to deposit public funds, or knowingly deposits or draws any check or negotiable order of withdrawal against the funds except in the manner described in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

Inappropriate Expenditures of Public Funds

As stated in the prior Audit Report B14087, the Commission used money in the Square Five and Vietnam Korea Memorial funds for parties, flowers, and gift certificates to employees. These are considered personal in nature and are an inappropriate use of public funds. Any money received by the State should be used for the purpose for which it was intended.

The Square Five and Vietnam Korea Memorial funds were transferred to the Foundation.

During this audit period, the Commission paid for Christmas parties for employees in 2000, 2001, and 2002, totaling \$2,885.90 with public funds from the Foundation. Public funds were also used to pay for the preparation of tax forms for the Foundation at a cost of \$2,500.00. In addition, the Foundation also paid for other items considered personal in nature such as staff lunches and flowers.

"Public funds' means all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office." (IC 5-13-4-20)

WAR MEMORIALS COMMISSION
REVIEW COMMENTS
March 31, 2003
(Continued)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 5)

Internal Controls Over Accounting Records

We noted the following concerning the controls over the receipting, disbursing, recording, and accounting for financial activities of the Foundation. The Foundation does not receipt revenue, maintain a cash book to record collections of donations, or adequately document compliance with donor requests.

IC 5-13-5-1(a) states:

"Every public official who receives or distributes public funds shall:

- (1) keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cash book daily to show funds on hand at the close of the day."

It is common business practice to establish and maintain adequate internal controls over accounting records of financial activity.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Museum Employees

The Foundation has entered into contracts for services with individuals to work at the Civil War Museum. Museum employees are actually State employees that should receive compensation based upon a state approved hourly rate. Payment of wages to employees must be approved by State Personnel. Museum employees were not approved by State Personnel.

Per 31 IAC 1-3-2: "... no person shall be appointed to or employed in a position until the position has been allocated to a class and approved by the Director or until the classification plan has been amended to provide therefore."

The State Personnel Department has the responsibility of developing personnel rules and regulations; approving personnel transactions; and maintaining state personnel records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9)

WAR MEMORIALS COMMISSION
REVIEW COMMENTS
March 31, 2003
(Continued)

SOUVENIR SHOP FUND

Introduction

The Souvenir Shop Fund was established by legislation (IC 10-7-2-19 currently 10-18-1-26) for the purpose of selling pictures, models, books, and other representations of the monuments and grounds. The Commission maintains a souvenir shop at the War Memorial and Civil War museums.

Cash Activity

The Souvenir Shop Fund balance on March 1, 2000, was \$2,789.18. For the period of March 1, 2000, through March 31, 2003, deposits were from gross sales of the souvenir shops, elevator ticket sales, and cash donations. Expenditures were for purchases of inventory and employee salaries. Currently, elevator ticket sales from the Civil War Museum and cash donations from both museums are deposited into the War Memorial Foundation operating account. The Souvenir Shop fund balance on March 31, 2003, was \$14,937.27.

Improper Management of Fund

As stated in our prior Audit Report B14087, the Souvenir Shop Fund is maintained outside the State's accounting system at a financial institution. IC 10-7-2-19 (currently 10-18-1-26) provides no statutory authority for these funds to be maintained outside the State's accounting system.

All funds remaining in the Souvenir Shop Fund should be deposited with the Treasurer of State and recorded in the appropriate Auditor of State fund center(s) of the Commission.

Until the War Memorials Commission deposits the Souvenir Shop Funds into the State's accounting system, the State continues to lose interest revenue.

IC 10-7-2-19 (currently 10-18-1-26) states in part: "... the treasurer of state shall invest the money in the souvenir shop fund not currently needed to meet the obligations of the fund in the same manner as other public funds may be invested" and "money in the souvenir shop fund at the end of a state fiscal year does not revert to the state general fund."

State agencies do not have the authority to maintain funds outside of the Auditor of State's accounting system without specific statutory authority. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

Cash Book

The War Memorial Commission does not maintain a cash book for the Souvenir Shop to record collections of daily Souvenir Shop and elevator ticket sales or cash box donations at the War Memorial and Civil War museums.

WAR MEMORIALS COMMISSION
REVIEW COMMENTS
March 31, 2003
(Continued)

IC 5-13-5-1(a) states:

"Every public official who receives or distributes public funds shall:

- (1) keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cash book daily to show funds on hand at the close of the day."

Souvenir Shop Employees

The War Memorial Commission hires individuals to work at the Souvenir Shop at the Civil War Museum who report time worked via bi-weekly attendance reports. Souvenir Shop employees were not approved by State Personnel. Souvenir Shop employees are actually State employees that should receive compensation based upon a state approved hourly rate. Payment of wages to employees must be approved by State Personnel.

Per 31 IAC 1-3-2: "... no person shall be appointed to or employed in a position until the position has been allocated to a class and approved by the Director or until the classification plan has been amended to provide therefore."

The State Personnel Department has the responsibility of developing personnel rules and regulations; approving personnel transactions; and maintaining state personnel records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9)

DAILY DEPOSITS

As stated in our three prior audit reports (most recently B14087), the War Memorials Commission did not consistently deposit receipts collected for grounds/room user fees, donations, and souvenir shop sales within the following business day after receipt of the funds.

During this audit period, the Commission also did not deposit revenue from elevator ticket sales within the following business day after receipt of the funds.

IC 5-13-6-1(b) states in part: "... all public funds ... shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

COMPENSATORY TIME

As stated in the two prior Audit Reports B05405 and B14087, analysis of the accrual, tracking, and use of compensatory time, demonstrated that the War Memorials Commission was not in compliance with the requirements of Financial Management Circular 87-2.1.

The Employee Compensatory Time Worksheet (State Form 42386) was not being completed by the employee and approved by the supervisor.

WAR MEMORIALS COMMISSION
REVIEW COMMENTS
March 31, 2003
(Continued)

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

SDO FUND DISBURSEMENTS

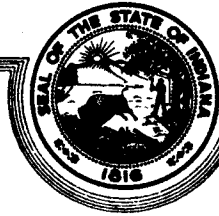
Several disbursements from the War Memorials Commission preventive maintenance Special Disbursing Officer Fund (SDO) appear to have been split in order to circumvent the Commission's single purchase limit.

The single purchase limit for the SDO fund cannot be exceeded. Purchases or payments cannot be artificially divided to circumvent the limit. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

WAR MEMORIALS COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on June 19, 2003, with Mr. George Buskirk, Jr., President of the Commission; and Mr. William Sweeney, Executive Director. The contents of this report were again discussed with Mr. Sweeney on July 8, 2004. The official response to the review comments has been made a part of this report and may be found on Pages 12.

STATE OF INDIANA



INDIANAPOLIS, 46204

INDIANA WAR MEMORIALS COMMISSION
INDIANA WAR MEMORIAL
431 NORTH MERIDIAN STREET
PHONE: 317-232-7615

SOLDIERS AND SAILORS MONUMENT
MONUMENT CIRCLE

July 16th, 2004

Mr. Charles Johnson, III
State Board of Accounts
302 W. Washington St, Room E418
Indianapolis IN 46204-2765

Dear Mr. Johnson:

The following response is provided pursuant to your Memorandum of 2/10/04, the Draft Review Report of your audit of the War Memorials Commission conducted in March 2003 and our meeting of July 8th.

We have this date asked the Hoosier Trust Company to liquidate the Foundation's holdings as rapidly as is prudent. They will issue two checks to the Indiana War Memorials Commission; one check, in the amount of \$605,410.57, the other, for the remaining amount (approximately \$115,000 as of June 30th).

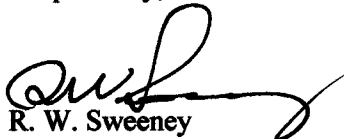
We will deposit the \$605,410.57 in to our fund center 6000 131500; the second will go in to 1000 130150.

We have requested an SDO account for the 6000 money and will close the Foundation Checking Account as soon as the currently outstanding checks clear. The remaining balance will then be deposited in to 6000 131500.

We have also requested a new fund/center for the Gift Shop. As soon as the Gift Shop's currently outstanding checks have cleared we will close that account and deposit the remaining balance in to the new fund/center.

When we re-opened our business operations last spring we ensured that we complied with IC 5-13-5-1(a). We will henceforth ensure State Forms 42386 are completed and validated as record of all compensatory time earned/used. We have increased our SDO account from \$3,000.00 to \$5,000.00 and our single purchase limit from \$500.00 to \$700.00, and have not since violated our single purchase limit.

Respectfully;


R. W. Sweeney
Executive Director